

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SANDY HOOK)
WATER DISTRICT FOR APPROVAL OF A) CASE NO.
PROPOSED INCREASE IN RATES FOR) 2005-00233
WATER SERVICE)

O R D E R

On June 17, 2005, Sandy Hook Water District ("Sandy Hook") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Sandy Hook's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 14th day of September, 2005.

By the Commission

ATTEST:



Executive Director

STAFF REPORT
SANDY HOOK WATER DISTRICT
CASE NO. 2005-00233

On June 17, 2005 Sandy Hook Water District ("Sandy Hook") filed its application seeking to increase its rates pursuant to 807 KAR 5:001. Sandy Hook proposes to increase its current rates by 19.5 percent, which would produce increased revenues of \$71,253. In order to evaluate the requested increase, Commission Staff ("Staff") performed a limited financial review of Sandy Hook's test period operations for the calendar year ending December 31, 2004.

The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Jack Kaninberg of the Commission's Water and Sewer Revenue Requirements Branch performed a field review on July 20, 2005. Based upon this review, Staff recommends that Sandy Hook's requested rate increase be granted. In fact, as stated in its application, Sandy Hook could have justified a substantially higher increase than was requested, but chose to fund only 50 percent of its depreciation expense. Staff's pro forma operations are shown in Attachment B.

Eddie Beavers is responsible for all revenue adjustments and the calculation of the proposed rates, which are discussed in Attachment C. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the

recommendations herein, Staff is of the opinion that the rates as shown in Attachment A of this report are reasonable and should be approved by this Commission.

Signatures

Prepared by: Jack Kaninberg
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Eddie Beavers
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2005-00233
STAFF'S RECOMMENDED RATES

Monthly Water Rates

5/8 inch x 3/4 inch

First	2,000 gallons	\$17.60	Minimum Bill
Next	8,000 gallons	6.62	per 1,000 gallons
Next	40,000 gallons	5.88	per 1,000 gallons
Over	50,000 gallons	4.40	per 1,000 gallons

1 inch

First	5,000 gallons	\$37.46	Minimum Bill
Next	5,000 gallons	6.62	per 1,000 gallons
Next	40,000 gallons	5.88	per 1,000 gallons
Over	50,000 gallons	4.40	per 1,000 gallons

1 1/2 inch

First	10,000 gallons	\$70.56	Minimum Bill
Next	40,000 gallons	5.88	per 1,000 gallons
Over	50,000 gallons	4.40	per 1,000 gallons

2 inch

First	20,000 gallons	\$129.36	Minimum Bill
Next	30,000 gallons	5.88	per 1,000 gallons
Over	50,000 gallons	4.40	per 1,000 gallons

3 inch

First	30,000 gallons	\$188.16	Minimum Bill
Next	20,000 gallons	5.88	per 1,000 gallons
Over	50,000 gallons	4.40	per 1,000 gallons

Sandy Hook Attachment B	Sandy Hook Adjusted	Staff Adjustments	Ref.	Proforma
Water Sales Revenue	\$345,531	0		\$345,531
Other Water Revenue	\$13,060	0		\$13,060
Total Revenue	\$358,591	0	A	\$358,591
Employee Salaries	\$125,441	\$389	B	\$125,830
Christmas Bonus	\$400	(\$400)	C	0
Pensions/Benefits	\$3,490	\$285	D	\$3,775
Purchased Power	\$37,319	(\$4,177)	E	\$33,142
Materials/Supplies	\$43,996	(\$1,052) (\$500)	F	\$42,444
Contr. Services Acct.	\$6,366	0		\$6,366
Contr. Services Other	\$634	0		\$634
Transportation Expense	\$7,808	0		\$7,808
Insurance	\$34,362	0		\$34,362
Advertising	\$551	0		\$551
Bad Debt	\$1,345	0		\$1,345
Reg. Com Expense	\$662	0		\$662
Miscellaneous Expense	\$639	0		\$639
<i>Tot. Water Util. Exp.</i>	<i>\$263,013</i>	<i>(\$5,455)</i>		<i>\$257,558</i>
Depreciation Expense	\$132,151	(\$2,316)	G	\$129,835
Amortization Expense	0	\$210 \$166	H	\$376
Taxes OT Income	\$22,464	(\$12,838)	I	\$9,626
Total Op. Expenses	\$417,628	(\$20,233)		\$397,395
<i>Total Operating Income</i>	<i>(\$59,037)</i>	<i>\$20,233</i>		<i>(\$38,804)</i>
Interest Income	\$576	0		\$576
Nonutility Income	\$4,253	0		\$4,253
Interest Expense	\$63,086	0		\$63,086
Net Income	(\$117,294)	\$20,233		(\$97,061)

Revenue Requirement

\$ 397,395- Adjusted Op. Expenses

\$ 110,303- Debt Service Coverage

\$ 507,698- Revenue Requirement

(\$358,591)- Less Normalized Revenues

(\$ 4,829) - Less Other Income

\$ 144,278- Justified Increase (40.2% increase)

\$ 71,253 - Recommended Increase (19.5% increase)

Debt Service Coverage

\$28,100 – 2006 Principal

\$29,200 – 2007 Principal

\$29,200 – 2008 Principal

\$86,500 /3 =

\$28,833 Avg. Principal

\$63,086 2004 Interest

\$91,919 x 1.2 DSC = \$110,303

Explanatory Notes:

- A. Normalized Revenues based on Staff's agreement with Sandy Hook's billing analysis.
- B. Employee Salaries and Wages Expense was adjusted to reflect overtime pay at 1 ½ times normal rates. Sandy Hook's application reflected an adjustment of \$9,099 for a \$1 per hour increase based upon 8,320 regular hours and 778.75 overtime hours, but using a 1.0 rather than a 1.5 pay rate for overtime hours.
- C. Sandy Hook's payment of Christmas bonuses was removed for ratemaking purposes.
- D. Pensions and Benefits Expense was adjusted to include a 3% contribution on pro forma salaries of \$125,830 rather than 2004 salaries.
- E. Purchased Power Expense, which actually consisted of payments for various utilities in addition to electricity, was adjusted to remove nonrecurring water purchases of \$4,177 from Rattlesnake Ridge Water District.
- F. Materials and Supplies Expense was adjusted to remove two nonrecurring purchases of \$1,052 for backhoe tires and \$500 for a typewriter.
- G. Depreciation Expense was adjusted to reflect normalized depreciation based upon plant in service at the end of 2004, including adjustments for plant to be retired in 2005, as follows:

Plant Item- 2004 Additions	Acquired Value	Life	Full Yrs. Deprec.	2004 Deprec.	Adjustment
Well #5	\$33,426	40	\$835.66	\$626.75	
Rehab Old Well	\$9,477	40	\$236.92	\$177.69	
Submersible Pump	\$3,597	7	\$513.86	\$214.11	
Bridge Aerial Crossing Repl.	\$20,361	50	\$407.22	\$169.68	
Water Level Indicator	\$571	7	\$81.69	\$68.07	
Air Compressor	\$5,906	7	\$843.81	\$562.54	
Ditch Witch	\$1,208	7	\$172.57	\$115.05	
Air Tools	\$2,492	7	\$356.00	\$237.33	
Riding Mower	\$1,499	7	\$214.28	\$142.85	
Total Additions	\$78,537		\$3,662.01	\$2,314.07	\$1,347.94
<i>Retirements</i>			<i>Proforma</i>	<i>2004 Deprec.</i>	
Two Pumps (1998)	\$6,630	7	\$78.94	\$947.14	(\$)
Generator (2000)	\$3,970	5	\$198.47	\$793.93	
Honeywell Recorder (1998)	\$649	7	\$39.40	\$92.72	
Trailer (2000)	\$5,800	5	\$96.67	\$1,160.00	
Ford Truck (2000)	\$6,500	5	\$216.67	\$1,300.00	
<i>Depreciation on Retirements</i>	<i>\$23,549</i>		<i>\$630.15</i>	<i>\$4,293.79</i>	<i>(\$3,663.64)</i>
Total Adjustment					(\$2,315.70)

H. Amortization Expense was increased to allow recovery of the two nonrecurring purchases over multi-year periods. Recovery for the \$1,052 purchase of backhoe tires is recommended over five years, while recovery for the \$500 purchase of the typewriter is recommended over three years.

I. Taxes Other Than Income Expense was adjusted to allow for normalized FICA tax at a 7.65% rate on proforma salaries of \$125,830, to remove the PSC fee of \$662 which was allowed under Regulatory Commission Expense, and to remove school taxes of \$12,143 which are collected and remitted to various agencies.

Attachment C
Staff Report Case No. 2005-00233
Rate Making Discussion

Field Review: Staff conducted a field review and had discussions with Carryn Lee of The Kentucky Rural Water Association. Ms. Lee is responsible for the Cost of Service Study filed in Sandy Hook's application. This Cost of Service Study follows acceptable standards outlined by the American Water Works Association's Manual M1. Ms. Lee estimated the percentages for plant and depreciation allocations based on other studies of similar sized utilities. Staff accepts Ms. Lee's calculations and methodology of the plant and depreciation allocations that were filed in Sandy Hook's application.

Normalized Revenue: Sandy Hook's 2004 Annual Report reported revenue from water sales of \$374,069 was adjusted by Ms. Lee to develop the normalized revenue from rates of \$345,531. Ms. Lee's adjustments were for the inclusion of Taxes and Late Fees in the annual report figures. Staff recommends that the Commission accept these adjustments.

Staff's Rate Discussion: Staff concurs with the rates and rate structure as outlined in the application. Staff recommends that the Commission accept these proposed rates.